

Message Text

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PAGE 01 MANILA 14136 01 OF 02 021020Z

12

ACTION TRSE-00

INFO OCT-01 EA-06 ISO-00 CIAE-00 PM-03 H-01 INR-05 L-02

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USIA-06 AID-05 COME-00 EB-07 FRB-01 XMB-02 OPIC-03

CIEP-01 LAB-04 SIL-01 OMB-01 IO-10 NEA-06 STR-01

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FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 8785

LIMITED OFFICIAL USE SECTION 1 OF 2 MANILA 14136

USADB

FOR NAC AGENCIES

E.O. 11652: ADS, DECLAS 3/31/75

TAGS: EAID, EFIN, RP

SUBJECT: PROPOSED ADB LOAN - AGUSAN DEL SUR IRRIGATION PROJECT

(PHILIPPINES)

SUMMARY: ADB MANAGEMENT PROPOSES \$5.8 MILLION EQUIVALENT LOAN FROM SPECIAL FUNDS RESOURCES TO GOVT OF PHILIPPINES TO FINANCE FOREX COST OF CONSTRUCTING TWO GRAVITY IRRIGATION SYSTEMS ALONG ANDANAN AND SIMULAO RIVERS IN AGUSAN DEL SUR PROVINCE, MINDANAO, PHILIPPINES. USADB RECOMMENDS FAVORABLE NAC ACTION.

1. ADB DOC. R-118-74 WITH ATTACHMENTS DESCRIBING PROPOSED LOAN POUCHED ADDRESSEES NOV. 29. BOARD CONSIDERATION SCHEDULED DEC. 17.

2. ADB MANAGEMENT PROPOSING \$5.8 MILLION LOAN FROM LIMITED OFFICIAL USE

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PAGE 02 MANILA 14136 01 OF 02 021020Z

SPECIAL FUNDS RESOURCES TO GOVT OF PHILIPPINES.

PROCEEDS WILL FINANCE FOREX COST PROCURING CONSTRUCTION AND OPERATING EQUIPMENT, MATERIALS AND SPARE PARTS; AGRICULTURAL MACHINERY AND CONSULTANT SERVICES. PROPOSED TERMS ARE 40 YEAR AMORTIZATION INCLUDING 10 YEAR GRACE PERIOD, ONE PERCENT PER ANNUM SERVICE CHARGE. GOVT OF PHILIPPINES (GOP) TO BE BORROWER, NATIONAL IRRIGATION ADMINISTRATION (NIA) TO BE EXECUTING AGENCY.

3. AGRICULTURE IS MOST IMPORTANT SECTOR IN PHILIPPINE ECONOMY, ACCOUNTS FOR ONE-THIRD OF GNP, HALF OF TOTAL EMPLOYMENT AND 70 PERCENT OF EXPORT EARNINGS. HOWEVER, TWO-THIRDS OF LAND UNDER CULTIVATION IS PLANTED WITH CEREAL GRAINS (RICE AND CORN) FOR DOMESTIC USE WITH REMAINDER MOSTLY EXPORT CROPS OF SUGAR, COCONUT, PINEAPPLES AND TOBACCO.

4. GOVT GOALS FOR AG SECTOR INCLUDE SELF-SUFFICIENCY IN CEREALS, EXPANDING AG EXPORTS, IMPLEMENTING LAND REFORM, CONSERVING NATURAL RESOURCES, AND EMPLOYMENT GENERATION TO SLOW URBAN MIGRATION. CURRENT DEVELOPMENT PLAN HAS GROWTH TARGET FOR RICE OF 7.5 PERCENT PER ANNUM TO ATTAIN SELF-SUFFICIENCY THIS CROP BY 1977. SINCE HIGH-YIELDING VARIETIES HAVE ALREADY BEEN INTRODUCED IN IRRIGATED AREAS, INCREASED PRODUCTION WILL REQUIRE EXTENSION AND REHAB OF IRRIGATED AREAS, BETTER ON-FARM WATER MANAGEMENT. ALSO, GOVT ENCOURAGING MULTIPLE-CROPPING, MORE FEED-GRAIN AND LIVESTOCK PRODUCTION WHERE POSSIBLE IN IRRIGATED AREAS, BUT ONLY 30 PERCENT OF ALL LAND UNDER RICE (ABOUT 900,000 HECTARES) PRESENTLY IRRIGATED.

5. MINDANAO REGION CONSTITUTES ONE-THIRD OF TOTAL LAND AREA, 22 PERCENT OF POPULATION; 20 PERCENT OF NATIONAL INCOME. ABOUT TWO-THIRDS OF REGION'S INCOME AND EMPLOYMENT BASED ON AGRICULTURE; HOWEVER AS INFRA-STRUCTURE CONSTRAINTS REMOVED, MINING AND MANUFACTURING EXPECTED TO INCREASE RAPIDLY; INCREASING AVAILABILITY OF LOW-COST HYDROELECTRIC ENERGY WILL ATTRACT POWER-INTENSIVE INDUSTRY.

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PAGE 03 MANILA 14136 01 OF 02 021020Z

6. PROPOSED PROJECT WOULD INCLUDE CONSTRUCTION OF TWO SEPARATE NEW IRRIGATION AND DRAINAGE FACILITIES IN THE PROVINCE OF AGUSAN DEL SUR, COVERING A TOTAL OF 8,700 HECTARES. ADANA RIVER PORTION (5500 HECTARES) INCLUDES CONCRETE DIVERSION WEIR 65 METERS LONG BY 1.5 METERS HIGH, CANALS, LATERALS AND FARM DITCHES TALLING 417 KILOMETERS, 57 KILOMETERS OF FARM SERVICE ROADS, 42 KILOMETERS OF EXISTING CREEKS TO BE IMPROVED TO SERVE

AS MAIN DRAINS; 270 KM OF FARM DRAINS TO BE BUILT;
1,300 HA SECOND GROWTH FORESTLAND TO BE CLEARED;
SIMULAO PORTION (3200 HA) TO HAVE 100 METER LONG BY
3.1 METER HIGH DIVERSION WEIR, WATER DISTRIBUTION
SYSTEM OF 240 KM; 33 KM OF FARM ROADS, 19 KM OF NATURAL
DRAINS TO BE IMPROVED, 176 KM OF LATERAL AND FARM
DRAINS TO BE BUILT; 820 HA TO BE CLEARED.

7. ALSO INCLUDED WOULD BE AN AG DEVELOPMENT PROGRAM
COMPRISED OF EXTENSION SERVICES AND FARMER TRAINING
INCLUDING PILOT DEMONSTRATION FARM; PROVISION OF FARM
EQUIPMENT INCLUDING 90 HAND TRACTORS AND 70 THRESHERS;
MARKETING FACILITIES COMPRISED OF 110 DRYERS, FIVE
WAREHOUSES AND OTHER EQUIPMENT. ALSO, SUPPORTING SERVICES
TO ASSURE AVAILABILITY OF CREDIT, FERTILIZERS AND OTHER
INPUT SUPPLIES AND ESTABLISHMENT OF FARMER ORGANIZATIONS
WILL BE UNDERTAKEN BY RELEVANT GOVT AGENCIES. DEPT OF
AGRARIAN REFORM TO ASSURE TRANSFER OF LANDS TO ELIGIBLE
AREA FARMERS TO BE CONCLUDED BY END OF 1975, REMAINING
FARMERS TO OBTAIN ASSURED LEASEHOLD RIGHTS WITH PROVISIO
THAT INCREMENTAL PRODUCTION ATTRIBUTED TO PROJECT WILL
ACCURE TO THESE SMALL FARMERS. (SIDE LTR NO. 4, PARA. 8).

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PAGE 01 MANILA 14136 02 OF 02 021042Z

12

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P 020905Z DEC 74

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LIMITED OFFICIAL USE SECTION 2 OF 2 MANILA 14136

8. TOTAL COST OF PROJECT ESTIMATED AT \$13.20 MILLION INCLUDING \$5.8 MILLION FOREX COMPONENT TO BE ALLOCATED AS FOLLOWS: CONSTRUCTION EQUIPMENT (\$2,550); CONSTRUCTION MATERIALS EXCLUSIVE OF STEEL SHEET PILES (860); STEEL SHEET PILES (190); AG DEVELOPMENT EQUIPMENT (680); OPERATION AND MAINTENANCE (O&M) EQUIPMENT (170); CONSULTING SERVICES (150) AND OVERALL CONTINGENCIES (1,200) (ALL ABOVE FIGURES IN THOUSANDS). GOVT ASSURES THAT NECESSARY FUNDS FOR LOCAL COSTS INCLUDING MAJOR ITEMS OF CIVIL WORKS (\$4,060,000 EQUIVALENT), CONTINGENCIES (\$1,400,000 EQUIV.); CONSTRUCTION MATERIALS (\$860,000 EQUIV.); ENGINEERING SERVICES (\$530,000 EQUIV.) AND LAND ACQUISITION (\$400,000 EQUIV.) TO BE AVAILABLE AS REQUIRED.

9. EXECUTING AGENCY, NATIONAL IRRIGATION ADMINISTRATION (NIA) CONSIDERED FULLY COMPETENT AND SUFFICIENTLY EXPERIENCED TO CARRY OUT PROJECT; CURRENTLY IS EXECUTING AGENCY FOR SEVERAL BANK-FINANCED PROJECTS (COTABATO AND DAVAO DEL NORTE IRRIGATION; ANGAT-MAGAT INTEGRATED AG DEVELOPMENT). GOVT WILL ESTABLISH PROJECT LIMITED OFFICIAL USE

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PAGE 02 MANILA 14136 02 OF 02 021042Z

COORDINATING COMMITTEE (SIDE LTR. NO. 4, PARA 3), CHAIRED BY NIA AND COMPRISED OF REPRESENTATIVES RELEVANT NATIONAL AND PROVINCIAL AGENCIES; PROJECT AND AREA OFFICES TO BE ESTABLISHED TO MONITOR PROJECT.

10. PROJECT IMPLEMENTATION SCHEDULED FOR FOUR YEARS FROM EARLY 1975 TO 1979; ALL MAJOR CONSTRUCTION TO BE FINISHED BY END OF 1977, TERMINAL (ON-FARM) FACILITIES COMPLETED BY EARLY 1979.

11. CONSULTANTS TO BE ENGAGED UNDER BANK'S GUIDELINES. SINCE NIA DEEMED COMPETENT DESIGN AND CARRY OUT PROJECT, CONSULTANTS LIMITED TO TWO EXPERTS; FOUR/MAN/MONTHS FOR MECHANICAL ENGINEER TO ASSIST IN PREPARING TENDER DOCS, ADVISE ON PROCUREMENT. OTHER EXPERT IRRIGATION ENGINEER REQUIRED FOR 30 MONTHS TO REVIEW DETAILED DESIGNS, ASSIST IN SUPERVISION OF CONSTRUCTION CONTRACTORS.

12. PROCUREMENT TO BE IN ACCORD BANK'S GUIDELINES WITH EQUIPMENT AND MATERIALS EXCEPT FOR CERTAIN ITEMS NOTED PARA 13 BELOW ON BASIS INTERNATIONAL BIDDING FOR CONTRACTS OVER \$100,000; INT'L SHOPPING FOR CONTRACTS LESS THAN THAT AMOUNT.

13. AS IN CASE OF BANK-FINANCED ANGAT-MAGAT INTEGRATED AG DEVELOPMENT, AND DAVAO DEL NORTE IRRIGATION PROJECTS

CONSTRUCTION MATERIALS SUCH AS CEMENT, REBAR, FUEL AND LUBRICANTS TO BE PROCURED FROM LOCAL SUPPLIERS ON BASIS NIA'S STANDARD COMPETITIVE BIDDING PROCEDURES. FOREX COMPONENT THESE ITEMS ESTIMATED AT \$860,000 OR FIFTY PERCENT OF TOTAL CONTRACT COSTS. GIVEN NEED FOR TIMELY DELIVERY AND TENDERING IN SMALL LOTS TO MEET CONSTRUCTION SCHEDULE, BANK DEEMS THESE COMPONENTS UNSUITABLE FOR INT'S COMPETITIVE BIDDING; PREVAILING LOCAL PRICES PAID; NIA'S PROCUREMENT PROCEDURES ACCEPTABLE TO BANK.

14. PROJECT CONSIDERED TECHNICALLY AND ECONOMICALLY FEASIBLE, INTERNAL ECONOMIC RATE OF RETURN CALCULATED AT 19 PERCENT. INCREASE IN PADDY AND OTHER CROPS ATTRIBUTABLE TO PROJECT ESTIMATED TO EFFECT FOREX LIMITED OFFICIAL USE

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PAGE 03 MANILA 14136 02 OF 02 021042Z

SAVINGS BY IMPORT SUBSTITUTION OF \$7.5 MILLION ANNUALLY AFTER 1983. ALSO, 2500 FARM FAMILIES EXPECTED TO INCREASE YIELDS OF 53,300 TONS OF PADDY AND 3,700 TONS OF CORN PER YEAR.

15. IT SHOULD BE NOTED THAT PHILIPPINE ECONOMY HAD BEEN BUOYANT FOLLOWING 1972 IMPOSITION OF MARTIAL LAW WITH INT'L RESERVES DOUBLED BY END OF 1973 COMPARED TO PREVIOUS YEAR AND DOMESTIC REVENUES UP 42.8 PERCENT IN SAME PERIOD. HOWEVER, IMPACT OF QUADRUPLD OIL PRICES, RAPID INFLATION ALL MANUFACTURED IMPORTS HAS HAD PROFOUND ADVERSE IMPACT ON EXTERNAL FINANCIAL CONDITION WITH TURN AROUND TO TRADE AND CURRENT ACCOUNT DEFICITS FOR 1974; BALANCE OF PAYMENTS EXPECTED TO DETERIORATE FURTHER IN 1975. ALSO INFLATION ACCELERATING WITH MANILA CPI UP 28 PERCENT FIRST SEVEN MONTHS OF 1974; WHOLESALE INDEX ROSE 41 PERCENT SAME PERIOD. PRESIDENT'S REPORT AND RECOMMENDATION RE PROJECT NOTES PHILIPPINES HAS STATUS OF MARGINAL ELIGIBILITY FOR SPECIAL FUNDS RESOURCES PER BANK'S QUOTE CRITERIA FOR LENDING FROM THE ASIAN DEVELOPMENT FUND END QUOTE APPROVED SEPT. 1974. PRESIDENT'S REPORT (PARA. 46) ARGUES CURRENT AND EXPECTED FURTHER DETERIORATION OF EXTERNAL FINANCIAL POSITION THROUGH 1975/76 JUSTIFIES CONCESSIONAL LENDING FOR THIS PROJECT. LONG-TERM ECONOMIC PROSPECTS, DEBT SERVICING CAPACITY SUGGESTS GOP WILL HAVE REPAYMENT ABILITY. PRESIDENT'S REPORT FURTHER NOTES IF THIS PROJECT APPROVED, 6.3 PERCENT OF TOTAL BANK LENDING TO GOP IN 1974 WILL BE FROM CONCESSIONAL WINDOW.

16. USADB SUPPORTS PROPOSAL AND RECOMMENDS FAVORABLE NAC ACTION. U.S. MISSION MANILA PREPARING SEPTTEL WITH

COMMENTS FOR NAC AGENCIES PURUSANT TO STATE 119795

DTD. 3 JULY 1972.

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